TEEKAY LNG

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Fourth Quarter Year-End Earnings
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Operator: Good morning, my name is Deshanta (sp?) and I will be your conference operator today. At this time I would like to welcome everyone to the Teekay LNG Fourth Quarter Year-End Earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a question during this time simply press star then the number on your telephone keypad. If you would like to withdraw your question press star then the number two on your telephone keypad.

Thank you, Mr. Evensen you may begin your conference.

Scott Gayton: Before Mr. Evensen begins and before I read the forward looking statements I would like to direct all participants to our website at www.teekaylng.com where you will find a copy of the Fourth Quarter 2006 Earnings Presentation. Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind you that various remarks we may make about future expectations, plans and prospects for the Partnership and the shipping industry constitute forward-looking statements for purposes of the Safe Harbor Provision under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our most recent filing on Form F-1, dated December 13, 2006 on file with the SEC. I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you Scott, and thank you for joining us today on our Fourth Quarter Results Conference Call. With me today are Vince Lok, Chief Financial Officer and Brian Fortier, Corporate Controller of Teekay Shipping.

Turning to the presentation and to slide three of our presentation and reviewing the fourth quarter highlights. Consistent with the previous quarter we declared a cash distribution of 16.5 million or $0.4625 per unit representing an annualized distribution of $1.85 per unit. The generated 17.6 million of distributable cash flow, up from 15.7 million in the fourth quarter of 2005 primarily due to the acquisition of three Suezmax tankers in November 2005. Excluding the unrealized foreign exchange loss of 15.1 million, net income was 7.7 million or $0.22 per unit.

The first of our three RasGas II LNG carriers was delivered on October 1st, 2006 and commenced its six straight 20-year charter in mid-November. Our second RasGas II LNG carrier was delivered on January 2nd of this year and the third vessel is expected to deliver next week. The total equity required by the partnership for the three RasGas II vessels is approximately $50 million net of the tax lease benefit. With liquidity of approximately 445 million in the partnership no equity issuance is required to fund this purchase. We agreed to acquire three liquified petroleum gas or LPG carriers from I.M. Skaugen Group and these are scheduled to deliver between early 2008 and mid 2009. On their deliveries, the vessels will commence service under 15-year six straight time charters to Skaugen. We've also acquired another LPG carrier, the Dania Spirit from Teekay Shipping Corporation in January of this year and it's currently on a six straight time charter to sod oil with a remaining contract term of approximately nine years.

As announced last quarter, we've agreed to acquire Teekay Shipping Corporation's 40% interest in the four RasGas III LNG newbuilding carriers scheduled to deliver in the second quarter of 2008 and Teekay's 70% interest in two Tangguh LNG newbuilding carriers, which are scheduled to be delivered during late 2008 and early 2009. As with the RasGas II vessels, parent of our general partner Teekay will continue to finance the construction of these vessels on our behalf until they deliver from the shipyard and commence their charters. Upon delivery the RasGas III vessels will go on charter for a fixed period of 25 years with an option to extend that to a total contact term of 35 years and Qatar Gas Transport will own the remaining 60% interest. The Tangguh Vessels will go on charter to Tangguh Production Sharing Partners a (inaudible) lead by BP plc who service the Tangguh Project in Indonesia for a period of 20 years.

We have updated our 2007 distribution guidance to reflect the delivery of the RasGas II vessels earlier than previously anticipated and the acquisition of the Dania Spirit in January. We're pleased to announce that the partnership now anticipates raising its quarterly cash distributions by 15% to $0.53 per unit or $2.12 per unit on an annualized basis. Commencing with the distribution related to the second quarter of 2007 which is one quarter earlier than our previous guidance. As previously noted one of the highlights of the quarter was the partnership's accretive acquisition of four LPG carriers.

Turning now to slide four, let me briefly review our strategic rationale for entering the LPG sector. LPG or Liquified Petroleum Gas is a by-product of natural gas separation in crude oil production and is a major growth area for our customers. We expect that the shipping dynamics of this growing market will lead to an increase in the sea borne LPG trades because of the distance between the producers and consumers of LPG and the nature of LNG transport. Currently the expected annual growth in sea borne LPG exports is approximately 7%. The four vessels have an aggregate cost of 106 million and are expected to generate approximately 11.6 million per year in cash flow. With these four vessels, Teekay LNG now has a platform for future growth in this exciting and growing market, which is adjacent to LNG.

Turning next to slide five and reviewing the distributable cash flow and cash distribution for the quarter. We generated 17.6 million of distributable cash flow, which results in a coverage ratio of 1.07 times.

Moving on to slide six and reviewing the income statements for the fourth quarter of 2006 and comparing it to the last quarter. During the fourth quarter our LNG carriers and Suezmax tankers achieved 100% utilization. The 2.9 million increase in net voyage revenues from the third quarter is primarily due to the delivery of the first RasGas II LNG carrier commencing its charter in mid November of 2006.

Vessel operating expenses and depreciation were also higher in the fourth quarter primarily due to the delivery of the RasGas II vessel. General and administrative expenses increased from last quarter by 1.4 million. This was due to the recognition of stock based compensation, the addition of the RasGas II vessel and the accrual for other corporate expenses.

Net interest expense increased from last quarter by 1.1 million, again primarily due to the delivery of the first RasGas II vessel under a capital lease. We incurred non-realized foreign exchange translation loss of 15.1 million primarily due to the effect of the change in the Euro to the US dollar exchange rate on our Euro denominated debt. As a reminder our Euro denominated revenues currently approximate our Euro dominated expenses and debt service costs. As a result we are not exposed materially to foreign exchange currency fluctuations and there's no impact on our cash flows. However for accounting purposes we are required to revalue all of our foreign currency denominated monetary assets and liabilities at the end of each reporting period. This revaluation does not effect our cash flows our the calculation of distributable cash flow but does result in the recognition of unrealized foreign exchange gains and losses and given the recent volatility in foreign exchange rates you should expect reported net income to fluctuate from quarter to quarter to reflect this, up and down.

Turning next to slide seven, we presented our December 31st balance sheet. With partnerships agreement in November 2006 to acquire Teekay's interest in the Tangguh and RasGas projects respectively the partnership is required to consolidate Tangguh and equity account for its investment in RasGas III under US GAAP. We've shown separately on this slide the impact of Tangguh and RasGas III on the partnership's balance sheet. Restricted cash related to newbuilding vessels to be delivered decreased from last quarter due to the delivery of the first RasGas II vessel in October. The restricted cash associated with a first vessel has been included in long-term debt, net of restricted cash for presentation purposes.

Vessel and equipment increased from last quarter as a result of the delivery of the first RasGas II vessel. Other assets increased from the last quarter primarily as a result of our consolidation of Teekay's investment in and advances made toward the RasGas III and Tangguh vessels. Advances from affiliates increased from last quarter primarily due to advances made by Teekay in relation to RasGas II.

Long-term debt net of restricted cash increased from last quarter and now includes the debt related to the first RasGas II vessel. Long-term debt related to newbuilding vessels to be delivered reflects the debt for the two remaining RasGas II vessels and for RasGas III. Other long-term liabilities increased from last quarter primarily due to the inclusion of our loan owing to Teekay for the purchase of its 70% interest in RasGas II and the loan due to RasGas II's joint venture partner.

Minority interest includes 100% of the equity interest in Tangguh and the partnership's 40% equity interest in RasGas III Project. The balance sheet remains strong with net debt that is net of restricted cash, the capitalization at 52% and the partnership had total liquidity of 445 million at December 31st. As a result we feel the partnership is in a very strong financial position to take advantage of any acquisition opportunities without having to issue equity immediately.

Turning next to slide eight I want to again show you our multi year built in growth profile. The business development people at Teekay Shipping Corporation are busy working on several organic projects to build this portfolio further.

In closing, we want to continue to execute on our plans to increase the partnerships distributable cash flow, both through acquisitions and building LNG carriers and now recently through acquisition of LPG carriers all against long-term contracts. As you can see our portfolio contracts puts us in a position to grow each year from 2007 to 2009.

Thank you all for listening and operator I'm now available to take questions.

Operator: Thank you. At this time I would like to remind everyone if you would like to ask a question please press star, then the number one on your telephone keypad and if you're on a headset please pick it up, thank you.

Your first question comes from Jonathan Chappell of JP Morgan.

Jonathan Chappell: Thank you. Good morning guys and Peter and Vince; thanks for taking questions today. I seem to always ask about delays in the tender of new vessels but I'm going to say it a little bit differently this time. We just read about scrapping of a gas to liquid project in Qatar with Exxon Mobil and the primary reason was accelerating costs for infrastructure. Is that really what you're seeing out there as far as infrastructure whether it's re gas or liquifaction plan, are the costs just rising so much right now that that's what's delaying this infrastructure and can that be what's pushing back the tenders of some new LNG vessels?

Peter Evensen: Yes, that's absolutely right Jonathan. What's happening is guys are, when people go into any big energy project they want to know exactly what their costs are and that all comes down to what the landed costs will be. The shipping side is anywhere from 10 to 30% of the landed cost of LNG so as with the press to try to bring these things on earlier people are finding that the costs of bringing it on one year earlier or two year earlier are prohibited and therefore they're electing to wait and so that is what is happening and it sort of happens whenever you have an industry that's trying to grow as fast as the LNG industry.

Jonathan Chappell: Mm-hmm, so does that change your outlook for the amount of LNG ships to be tendered let's say in the next 12 to 24 months?

Peter Evensen: Well actually we've felt this since we've talked about this before and we've felt this for the last 12 months. So what happens is when our business development people come in they sometimes go and talk to somebody and they say we're going to bring on this in 2009 and they, and they walk away and tell us no we really think it's closer to 2011. But in a way that helps because that will mean that the build up in LNG takes a longer period of time but it doesn't have the spikiness.

Jonathan Chappell: Mm-hmm, okay and then the other ones regarding your liquidity and your (inaudible) to cap. You had mentioned that you wouldn't have to raise equity for any acquisitions right away. How high would you take that next step to cap ratio? Where would you feel comfortable with and I guess another way of asking this is, how big of an acquisition could you make immediately without having to raise any equity?

Peter Evensen: Well I think we would feel comfortable with being able to make a cash purchase, investment of up to 100 million but yeah anything beyond that or even if we made an acquisition, at some point we would go back to the equity markets and raise equity. We know we will be back into the equity markets at, at by at least mid 2008 for the RasGas III Project.

Jonathan Chappell: Right.

Peter Evensen: If we made an acquisition we might do the same thing and just do a bigger issue right now and therefore pre fund if you will, RasGas III. It's just the timing question as it relates but we're looking for acquisitions and it would be natural to expand the flow of the, of the partnership if we found a good acquisition that was accretive.

Jonathan Chappell: Do you think that given the asset prices and the discrepancy between LPG and LNG that LPG might be more of a immediate acquisition target than LNG?

Peter Evensen: No, I actually think at some point this year we'll have some good news on some LNG tenders. As I said the guys are working on several LNG tenders, mostly in the Atlantic and so I'm hopeful that we will win some projects and they will actually take a decision on going forward on the projects which is goes back to your point.

Jonathan Chappell: Right.

Peter Evensen: But LPG is clearly a near term opportunity for us yeah.

Jonathan Chappell: Great, thanks a lot Peter.

Peter Evensen: Thank you.

Operator: Again to ask a question, please press star, then the number one on your telephone keypad.

Your next question comes from Ted Gartner with Raymond James.

Ted Gardner: Morning guys. Just wondering if you could comment a little bit on the market I guess the competitive landscape more accurately in the LPG area as far as, you know, what kind of how many vessels are out there, what kind of demand do you see for new vessels going forward over the next few years.

Peter Evensen: Mm-hmm, well we actually see that the LPG market will probably experience strong growth and that's because of, in the LNG side there's something called lean gas and rich gas and moving out to Asia traditionally people have wanted rich gas which is really LNG mixed with LPG but the US likes lean gas which is LNG without the LPG and people in Qatar and other places are starting to ship lean gas and wanting to ship the LPG separately and so we see a big growth there.

Having said that, in the very big sizes there's currently too many LPG vessels and because of this delay that Jonathan mentioned there's a short term area this year and in 2008 where there's too many big LPG vessels and rates on the spot side have dropped precipitously. So we're waiting for the right entry point on the big vessels. On the smaller vessels where we've made our four, our purchase of four vessels, there the price to cash flow is quite favorable for long-term contracts so I would expect you would see more of us working in the smaller sizes and we're waiting for the right entry point for the larger vessels.

Ted Gardner: Okay. Would the small vessels be a more of an acquisition opportunity or are there new bill possibilities there as well or…?

Peter Evensen: We think that's more of an acquisition opportunity.

Ted Gardner: Okay.

Peter Evensen: That we would look at but again we're not a spot player in the LPG market we're looking for long-term contracts with credit worthy parties.

Ted Gardner: Okay appreciate it.

Peter Evensen: Thank you.

Operator: Thank you your next question comes from Eric Shiu with (inaudible) Wachovia Securities.

Eric Shiu: Good morning guys, I just wanted to get a better sense of what would be a good run rate going forward for your OPEX and SG&A?

Peter Evensen: I think the SG&A will go up, will stay where it is going forward and the OPEX just changes as we add vessels going up so we're I would say in general other than adding projects you could make an assumption that the OPEX probably will go up by 2, 3% a year.

Eric Shiu: Thank you.

Operator: Again to ask a question please press star, then the number one on your telephone keypad.

At this time there are no further questions. Mr. Evensen are there any closing remarks?

Peter Evensen: Thank you very much and thank you for all the support that all the investors are showing to Teekay LNG Partners. We're working hard on building our portfolio and we're very pleased with the operating results that we had in the last year. I look forward to talking with you next quarter. Thank you.

Operator: Thank you. This concludes today's Teekay LNG Fourth Quarter Year-End Earnings Review Conference Call, you may now disconnect.